

# PROPOSED RESOLUTION

Resolution W-5020  
DWA

AGENDA ID #13890 (Rev. 1)  
ITEM #24

## PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch

RESOLUTION W-5020  
May 7, 2015

### RESOLUTION

(RES. W-5020) HAT CREEK WATER COMPANY ORDER  
AUTHORIZING A GENERAL RATE INCREASE TO  
PRODUCE ADDITIONAL ANNUAL REVENUE OF \$15,561,  
OR 71.0%, FOR TEST YEAR 2015.

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### SUMMARY

By Advice Letter 28-W, filed on April 3, 2014, Hat Creek Water Company seeks to increase its gross revenues by \$9,260 or 42.6%, for Test Year 2015. Hat Creek Water Company's rate increase request is based upon an increase in operating expenses and proposed new water plant additions to be installed in the near future.

For Test Year 2015, this resolution grants Hat Creek Water Company an increase in gross annual revenues of \$15,561, or 71.0%, which is estimated to provide gross annual revenues of \$37,715 based on a Rate of Margin of 21.69%.

### BACKGROUND

Hat Creek Water Company (Hat Creek) is a Class D water utility that has requested authority under General Order 96-B, General Rule 7.6.2, Water Industry Rule 7.3.3(5), and Public Utilities Code Section No. 454 to increase its water rates by \$9,260 or 42.6%, for Test Year (TY) 2015.

The last general rate increase (GRC) was granted on January 29, 2009, pursuant to Resolution No. (Res.) W-4735, which authorized a rate increase of \$4,582, or 26.6%, resulting in a rate of return of 12.75% for TY 2009. The present rates became effective on April 3, 2014, pursuant to the approval of Advice Letter (AL) 27-W, which granted a Consumer Price Index (CPI) increase of 1.5%.

Hat Creek's interim rates became effective on April 3, 2014, by approval of AL 27-W, which authorized an interim rate increase of 1.5%, for the Consumer Price Index – Urban (CPI-U) increase in 2013, subject to refund, should the rates established in this GRC be lower than the interim rates. The rates authorized by this Resolution are higher

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than the interim rates; therefore, Hat Creek should be allowed to file a Tier 2 AL within 30 days from the effective date of this Resolution to collect the under-collected revenues from the interim rate date to the effective date of the new rates.

Hat Creek is a class D water utility owned by John Parrish, who provides overall management, engineering, and maintenance services. In addition, Mr. Parrish is responsible for accounts receivable, billings, banking, bookkeeping, and customer relations. Hat Creek serves approximately 63 customers metered water service in the area known as Rim Rock Ranch, and vicinity, located near the community of Old Station, Shasta County. Most of the 5/8-inch metered customers are full time residents. The remaining are part-time residents and three commercial customers. There are three 1-inch customers which include the Forest Service Camp Ground and Visitor Center, with the third being a resident. The 1-1/2-inch meter serves the Rim Rock Ranch Resort, which closes during the winter. The two 2-inch meters are for the government including a Forest Service Work Center while one meter is agreed to be charged at the 5/8-inch meter charge. Lastly, the 3-inch meter is provided for Cal-Trans. The number of customers is not expected to change substantially in the upcoming years, so Hat Creek estimates no additional customers for TY 2015.

## **NOTICE AND PROTESTS**

A notice of the proposed rate increase was mailed to all customers. In this public notice, all customers were informed of the 71% increase in revenues and the new rates. A copy of the notice, mailed to each customer on October 6, 2014, is appended as Appendix F. No protests or comments have been received.

## **DISCUSSION**

The Division of Water and Audits (Division) made an independent analysis of Hat Creek's rate increase request. Appendix A shows Hat Creek's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in Hat Creek's and the Division's estimates in operating revenues, expenses, and rate base. Hat Creek was informed of the Division's differing views of revenues, expenses, and rate base and agrees with Division's findings.

Division reviewed operating revenues and expenses including employee labor, materials, contract work, water testing, transportation expenses, other plant maintenance, office salaries, office supplies and expenses, insurance, general expenses, depreciation, and taxes other than income. Division verified the operating expenses by

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reviewing supporting documents for substantiation and accuracy, and included the amounts that were deemed reasonable and prudent.

As 2014 has lapsed, this resolution grants Hat Creek a 2015 TY by escalating Division estimated 2014 expenses by factors provided by the Office of Ratepayer Advocates (ORA) in their memorandum dated December 15, 2014. The ratebase and the adopted quantities contained in Appendix D are also updated to reflect TY 2015.

## **Operating Revenues**

Hat Creek's operating revenues consist of general metered sales. There are currently 63 active service connections. For the TY, Hat Creek does not expect to add or lose any customers. A review of the past recorded numbers of customers during the past five years indicates there has been essentially no change in customer growth or decline, therefore, Division concurs with the utility's estimate of customers and revenues at present rates.

## **Operating Expenses**

Hat Creek and Division concur with the estimates for operating expenses based on the actual recorded amounts filed in Hat Creek's 2013 Annual Report. Division escalated the 2013 recorded operating expenses using the appropriate escalation factors of 1.5% and 1.0%, for labor and non-labor respectively, to escalate expenses for TY 2015.<sup>1</sup> The total operating expenses, in the amount of \$25,470, are included in the Summary of Earnings, Appendix A of this resolution, and are reasonable and should be adopted.

## **Facilities Fees**

Hat Creek has requested to increase its Facilities Fees, from its current level, to reflect the cost of installing and connecting new services. Division reviewed Hat Creek's request and verified the proposed facilities fees by reviewing supporting documents for substantiation and accuracy pertaining to the cost of installing and connecting new services. In addition, Division compared Hat Creek's facilities fees to regulated small water utilities of similar scope and size and concurs that the fees are deemed reasonable and prudent. Schedule F, Facilities Fees, as appended as Appendix F of this Resolution, are reasonable and should be adopted.

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<sup>1</sup> Labor and Non-labor escalation factors are based upon Division of Water and Audit's Estimates of Non-Labor and Wage Escalation rates for 2014 through 2018 from the July 2014 HIS Global Insight U.S. Economic Outlook.

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## **Plant Additions and Ratebase**

Hat Creek estimates that \$28,800 of New Plant Investment will be added within the next year. This includes a line replacement and meter installation (\$1,800) to Rim Rock Ranch Resort (\$4,000), improvements at the Hillside ditch bank including the installation of 300 feet of 24-inch culvert behind the rental cabins upon a steep hillside (\$16,000), and the installation of 4-inch water mains (\$7,000).

However, these are just rough estimates and none of these proposed plant items have begun construction at this time and are neither in service or installed at this time. A Rate of Return (ROR) vs. Rate of Margin (ROM) analysis, discussed below, has determined that the latter will produce a higher revenue requirement. Therefore, it is recommended that Hat Creek use these proposed revenues in order to build a cash reserve for future plant investments in the near future.

## **Rate of Return vs. Rate of Margin**

Hat Creek has requested a ROR of 11.8%. The Division's Utility Audit, Finance and Compliance Branch (UAFCB) recommended a ROR from 10.80% to 11.80% for a Class D, 100% equity - financed utility. Two methods are available for Division to utilize in the rate-making process: (1) ROR and (2) ROM. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return and rate of margin methods. Both methods are to be used. Per Decision 92-03-093, dated March 31, 1992, Division must recommend the method that produces the higher revenues. In the ROM method, the utility's revenue requirement is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the ROM. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the ROR method was used, a utility with little or no rate base would earn little or no return. UAFCB has recommended a ROM of 21.69% for Class D water utilities. A comparison of the two methods indicates that the ROM method produces a higher revenue requirement; therefore, Division recommends the ROM method at 21.69%, the UAFCB recommended ROM.

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## **Rates**

At Division's recommended rates shown in Appendix B, the average bill for a 5/8 x 3/4-inch metered residential customer using 11 CCF per month would increase from \$27.37 to \$33.57, or 22.7%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The Adopted Quantities and Tax Calculations are shown in Appendix D.

## **Balancing Accounts**

Hat Creek currently has no pending or outstanding balancing accounts.

## **SAFETY**

Hat Creek meets all applicable drinking water quality standards as required by the State Water Resources Control Board, Division of Drinking Water (SWRCB).

There are no fire districts within the service area and Hat Creek has provided Division with the locations and technical specifications of the five hydrants throughout the service area. Hydrants are flushed once annually and inspected during the fall season to ensure they are drained appropriately to prevent freezing.

The water treatment plant is monitored on a daily basis, either by remote computer or manually. Since this is a one-person operation, the level of safety is a high priority for the utility owner.

## **COMPLIANCE**

Hat Creek has no outstanding compliance orders and has been filing annual reports as required. Hat Creek meets all applicable drinking water quality standards as required by the SWRCB.

## **COMMENTS**

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g)(3), this resolution is exempt from the 30-day period for public review and comment.

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## FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Division of Water and Audits (Division) is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the recommendations of the Division are reasonable and should be adopted.
4. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. The facilities fees recommended by the Division (Appendix F) are reasonable and should be adopted.
6. Hat Creek Water Company should be allowed to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from April 3, 2014, the interim rate date, to the effective date of the new rates.
7. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311(g)(3).

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### **THEREFORE, IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code, Section 454, for Hat Creek Water Company to file a supplement to Advice Letter No. 28 to incorporate the rate schedules (Appendix B), and to concurrently cancel its presently effective Rate Schedules. The effective date of the revised rate schedule shall be 5 days after the date of filing.
2. Hat Creek Water Company is authorized to increase the Test Year 2015 water revenues by \$15,561 or 71.0%.
3. Hat Creek Water Company is authorized to file a Tier 2 advice letter within 30 days from the effective date of this Resolution to collect the under-collected revenues from April 3, 2014, the interim rate date, to the effective date of the new rates established in this Resolution. This advice letter shall become effective upon approval by Staff of the Division of Water and Audits.

This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on May 7, 2015; the following Commissioners voting favorably thereon:

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TIMOTHY J. SULLIVAN  
Executive Director

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## APPENDIX A HAT CREEK WATER COMPANY Summary of Earnings – Test Year 2015

		Utility Estimated Rates		Branch Estimated Rates	Recommended Rates
		Present	Requested	Present	
<b><u>Operating Revenue</u></b>					
	General Metered Revenue	\$21,614	\$30,873	\$21,614	\$37,043
	General Unmetered Revenue	\$0	\$0	\$0	\$0
	Reclaimed Water Sales	\$0	\$0	\$0	\$0
	Private Fire	\$0	\$0	\$0	\$0
	Other Water Revenue	\$132	\$132	\$132	\$132
	Other Unmetered Revenue	\$0	\$0	\$0	\$0
	<b>Total Revenue</b>	<b>\$21,746</b>	<b>\$31,005</b>	<b>\$21,746</b>	<b>\$37,175</b>
<b><u>Operating Expenses</u></b>					
610	Purchased Water	\$2,350	\$2,390	\$2,374	\$2,374
615	Purchased Power	\$3,088	\$3,140	\$3,119	\$3,119
618	Other Volume Related Expenses	\$0	\$0	\$0	\$0
630	Employee Labor	\$0	\$0	\$0	\$0
	(Labor Capitalized)	\$0	\$0	\$0	\$0
640	Materials	\$3,147	\$3,200	\$3,178	\$3,178
650	Contract Work	\$2,361	\$2,401	\$2,396	\$2,396
	Water Testing	\$0	\$0	\$0	\$0
660	Transportation Expenses	\$958	\$974	\$968	\$968
664	Other Plant Maintenance	\$0	\$0	\$0	\$0
670	Office Salaries	\$0	\$0	\$0	\$0
671	Management Salaries	\$4,800	\$4,882	\$4,872	\$4,872
674	Employee Benefits	\$0	\$0	\$0	\$0
676	Uncollectibles Expense	\$0	\$0	\$0	\$0
678	Office Services & Rentals	\$0	\$0	\$0	\$0
681	Office Supplies & Expenses	\$2,214	\$2,252	\$2,236	\$2,236
682	Professional Services	\$0	\$0	\$0	\$0
684	Insurance	\$2,117	\$2,153	\$2,138	\$2,138
688	Regulatory Commission Expense	\$0	\$446	\$149	\$149
689	General Expenses	\$4,000	\$4,068	\$4,040	\$4,040
	<b>Total Expenses</b>	<b>\$25,035</b>	<b>\$25,906</b>	<b>\$25,470</b>	<b>\$25,470</b>
	Depreciation	\$3,206	\$3,206	\$3,206	\$3,206
	Taxes other than Income	\$180	\$180	\$180	\$180
	Income Taxes	\$1,125	\$1,125	\$1,125	\$1,928
	Interest	\$0	\$0	\$0	\$0
	<b>Total Deductions</b>	<b>\$29,546</b>	<b>\$30,417</b>	<b>\$29,981</b>	<b>\$30,784</b>
	<b>Net Revenue (ROR)</b>	<b>-\$7,800</b>	<b>\$1,838</b>	<b>-\$8,235</b>	<b>\$327</b>
	<b>Net Revenue (ROM) - Applied</b>				<b>\$6,259</b>
<b>RATE BASE</b>					
	Utility Plant	\$59,007	\$59,007	\$59,007	\$59,007
	Construction Work in Progress	\$0	\$0	\$0	\$0
	Materials and Supplies	\$0	\$0	\$0	\$0
	Working Cash	\$0	\$0	\$0	\$0
	Accumulated Depreciation	\$57,905	\$57,905	\$57,905	\$57,905
	Advances for Construction	\$0	\$0	\$0	\$0
	Contributions in Aid of Construction	\$0	\$0	\$0	\$0
	Deferred Income Taxes	\$0	\$0	\$0	\$0
	<b>TOTAL RATE BASE</b>	<b>\$2,775</b>	<b>\$15,575</b>	<b>\$2,775</b>	<b>\$2,775</b>
	<b>Rate of Return (ROR)</b>	<b>-281%</b>	<b>11.80%</b>	<b>-297%</b>	<b>11.80%</b>
	<b>Rate of Margin (ROM)</b>				<b>21.69%</b>

END OF APPENDIX A



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## APPENDIX B (Page 1)

### HAT CREEK WATER COMPANY

#### Schedule No. 1 GENERAL METERED SERVICE

##### APPLICABILITY

Applicable to all metered water service.

##### TERRITORY

The area known as Rim Rock Ranch, Unit No. 1, and vicinity, located near the community of Old Station, Shasta County.

##### RATES

Quantity Rate:

All Water used per 100 cu.ft	\$1.14	(I)
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Service Charge:

##### Per Meter Per Month

For	5/8 x 3/4 inch meter	\$ 21.03	(I)
For	3/4-inch meter	\$ 31.55	(I)
For	1-inch meter	\$ 52.58	(I)
For	1-1/2-inch meter	\$105.15	(I)
For	2-inch meter	\$168.24	(I)
For	3-inch meter	\$315.45	(I)

The Service Charge is a readiness-to-serve charge which is applicable to metered service and to which is to be added monthly charge computed at the Quantity Rate.

##### SPECIAL CONDITIONS

1. In the event that a customer terminates service under this schedule and reinstates service at the same location, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service.
2. All bills are subject to the reimbursement fee set forth on Schedule No. UF

(cont.)

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## APPENDIX B (Page 2)

### HAT CREEK WATER COMPANY

Schedule No. LC

#### LATE PAYMENT CHARGE

##### APPLICABILITY

Applicable to all metered water service.

##### TERRITORY

The area known as Rim Rock Ranch, Unit No. 1, and vicinity, located near the community of Old Station, Shasta County.

##### RATES

Late Charge: A late charge of \$15.00 on unpaid balance subject to special conditions below. (I)

##### SPECIAL CONDITIONS

1. The balance is unpaid and subject to a late charge if the bill is past-due, or delinquent, as defined in Rule No. 11, Section B.1.a.
2. The late charge should be imposed only once on a delinquent bill since the account would be shut-off before a subsequent bill and then subject to the reconnection fee as authorized by Tariff Rule No. 11.
3. All bills shall be subject to the reimbursement fee as set forth on Schedule No. UF

END OF APPENDIX B

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## APPENDIX C

### HAT CREEK WATER COMPANY

Comparison of Rates  
Test Year 2015

METERED SERVICE	Per Service Connection Per Month		
	Present <u>Rates</u>	Proposed <u>Rates</u>	Percent <u>Increase</u>
Service Charge:			
For 5/8 x 3/4 - inch meter	\$17.80	\$21.03	18.1%
Quantity Charge:			
All water, per 100 cu. ft.	\$0.87	\$1.14	31.0%

Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4 - inch meter is shown below at current rates and recommended rates for Test Year 2014.

Usage 100 cu. ft.	Present Rates	Recommended Rates	Percent of Increase
0	\$17.80	\$21.03	18.1%
5	22.15	26.73	20.7%
8	24.76	30.15	21.8%
11 (avg.)	27.37	33.57	22.7%
15	30.85	38.13	23.6%
20	35.20	43.83	24.5%

END OF APPENDIX C

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## APPENDIX D (Page 1/2)

### HAT CREEK WATER COMPANY

ADOPTED QUANTITIES  
Test Year 2015

#### Expenses:

1. Purchased power (Electric)

Total cost (\$)	\$3,119
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2. Purchased Water \$2,374

3. Insurance Expense \$2,138

4. Number of Service Connections:

#### Metered Rate

5/8 x 3/4 inch meter	54
3/4-inch meter	0
1-inch meter	6
1-1/2 inch meter	1
2-inch meter	1
3-inch meter	<u>1</u>

Total	<u>63</u>
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5. Total Water Sales-Metered Customers 11,116 Ccf

(cont.)

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## APPENDIX D (Page 2/2)

### HAT CREEK WATER COMPANY

#### ADOPTED QUANTITIES Test Year 2015

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$37,175	\$37,175
2.	O & M Expenses	\$25,470	\$25,470
3.	Taxes Other Than Income	\$ 180	\$ 180
4.	Depreciation and Interest	\$ 3,206	\$ 3,206
5.	Taxable Income for State Tax	\$8,319	
6.	State Tax	\$ 800	
7.	Taxable Income for FIT		\$7,519
8.	Federal Income Tax		\$1,128
9.	Total Income Tax		\$1,928
California Corporate Franchise Rate		8.84%	
Federal Income Tax Rate			
On first \$50,000 of taxable income		15%	
On next \$25,000 of taxable income		25%	
On next \$25,000 of taxable income		34%	
On next 235,000 of taxable income		39%	
On over \$335,000 of taxable income		34%	

END OF APPENDIX D

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## APPENDIX F

### HAT CREEK WATER COMPANY

#### Schedule F

#### FACILITIES FEES

##### APPLICABILITY

Applicable to all customers applying for service from the Utility in the territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises.

##### TERRITORY

This schedule is applicable within the entire territory served by the utility.

##### RATES

##### Initial Fee for each Service Connection:

For 5/8 x 3/4-inch meter .....	\$2,000	(N)
For 3/4-inch meter .....	\$3,000	
For 1-inch meter .....	\$5,000	
For 1-1/2-inch meter .....	\$10,000	
For 2-inch meter .....	\$16,000	
For 3-inch meter .....	\$20,000	(N)

##### SPECIAL CONDITIONS

1. Facilities fees are payable in addition to and do not limit any charges for extension of mains that may be applicable under Rule 15, Main Extensions.
2. Payments made under this schedule **are not** subject to the reimbursement fee set forth in Schedule No. UF.

END OF APPENDIX F

## CERTIFICATE OF SERVICE

I certify that I have by either electronic mail or postal mail, this day, served a true copy of Proposed Resolution No. W-5020 on all parties in these filings or their attorneys as shown on the attached lists.

Dated April 20, 2015, at San Francisco, California.

/s/DANIEL SONG

Daniel Song

Parties should notify the Division of Water and Audits, Third Floor, California Public Utilities Commission, 505 Van Ness Avenue, San Francisco, CA 94102, of any change of address to ensure that they continue to receive documents. You must indicate the Resolution number on which your name appears.

**HAT CREEK WATER COMPANY  
ADVICE LETTER NO. 28  
SERVICE LIST**

Board of Supervisors  
1415 Court St., Suite 308B  
Redding, CA 96001-1673

Big Springs Mutual Water  
Co.  
P.O. Box 132  
Old Station, CA 96071  
[Hatcrk49@citilink.net](mailto:Hatcrk49@citilink.net)

CDPH  
364 Knollcrest Dr., Suite 101  
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[mikemcnamara@cdph.ca.gov](mailto:mikemcnamara@cdph.ca.gov)

Hat Creek Highlands Mutual  
Water Co.  
P.O. Box 62  
Old Station, CA 96071  
[jandismmons@frontiernet.net](mailto:jandismmons@frontiernet.net)